Small is Beautiful and Efficient: The Case For Secession

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A state is a territorial monopoly of compulsion — an agency which may engage in continual, institutionalized expropriation of property and the exploitation — in the form of taxation and regulation — of private property owners.[1] Assuming no more than self-interest on the part of government agents, all states can be expected to exhibit a tendency toward increased exploitation. On the one hand, this means increased domestic exploitation (and internal taxation); on the other, it means territorial expansion. States will always try to enlarge their exploitation and tax base. In doing so, however, they will come into conflict with other, competing states. The competition between states *qua* territorial monopolies of compulsion is by its very nature an eliminative competition (i.e., there can be only one monopolist of exploitation and taxation in any given area). Thus, the competition between different states can be expected to promote a tendency toward increased political centralization and ultimately one single world state.

A glance at Western history suffices to illustrate the validity of this conclusion. Thus, at the beginning of this millennium, Europe consisted of numerous independent political units. Now, only a few such units remain. To be sure, decentralizing forces also existed. There was the progressive disintegration of the Ottoman Empire from the 16th century until after WWI and the establishment of modern Turkey. The Habsburg Empire was gradually dismembered from the time of its greatest expansion under Charles V until it disappeared and modern Austria was founded in 1918. And only recently has the former Soviet Empire disintegrated. There are now more than a dozen independent states on the territory of the former Soviet Union. The former Yugoslavia consists now of Slovenia, Croatia, Serbia, Macedonia, and Bosnia. And the Czechs and the Slovaks have split and formed independent countries. However, the overriding tendency was in the opposite

1. On the theory of the state, see Murray N. Rothbard, *For A New Liberty* (New York: Macmillan, 1978); *The Ethics of Liberty* (Atlantic Highlands: Humanities Press, 1982); *Power and Market* (Kansas City: Sheed, Andrews & McMeel, 1977); Hans-Hermann Hoppe, *Eigentum, Anarchie und Staat* (Opladen: Westdeutscher Verlag, 1987); *A Theory of Socialism and Capitalism* (Boston: Kluwer, 1989); *The Economics and Ethics of Private Property* (Boston: Kluwer, 1993); also Albert J. Nock, *Our Enemy the State* (Delevan: Hallberg Publishing, 1983); Franz Oppenheimer *The State* (New York: Vanguard Press, 1914); *System der Soziologie*, Vol. 2, "Der Staat" (Stuttgart: G . Fischer, 1964).

direction. For instance, during the second half of the 17th century, Germany consisted of some 234 countries, 51 free cities, and 1500 independent knightly manors. By the early 19th century, the total number of the three had fallen to below 50, and by 1871 unification had been achieved. The ssame happened in Italy. Even small states have a history of expansion and centralization. Switzerland began in 1291 as a confederation of three independent cantonal states. By 1848 it was a single federal state with some two dozen cantonal provinces.

Moreover, from a global perspective, mankind has come closer than ever before to the establishment of a world government. Even before the dissolution of the Soviet Empire, the US had attained hegemony over Western Europe (most notably over West Germany) and the Pacific rim countries (most notably over Japan) — as indicated by the presence of American troops and military bases, by the NATO and SEATO pacts, by the role of the American dollar as the ultimate international reserve currency and of the US Federal Reserve System as the "lender" or "liquidity provider" of last resort for the entire Western banking system, and by institutions such as the International Monetary Fund (IMF), the World Bank, and the recently established World Trade Organization (WTO). In addition, under American hegemony the political integration of Western Europe has steadily advanced. With the establishment of a European Central Bank and a European Currency Unit (ECU), the European Community will likely be complete before the turn of the century. At the same time, with the North American Free Trade Agreement (NAFTA) a significant step toward the political integration of the American continent has been taken. In the absence of the Soviet Empire and its military threat, the US has emerged as the world's sole and undisputed military superpower and its "top cop."

According to the orthodox view, centralization is generally desirable and progressive movement, whereas disintegration and secession, even if sometimes unavoidable, represent an anachronism. It is assumed that larger political units — and ultimately a single world government — imply wider markets and hence increased wealth. As evidence of this, it is pointed out that economic prosperity has increased dramatically with increased centralization. However, rather than reflecting any truth, this orthodox view illustrates the fact that history is typically written by its winners. Correlation or temporal coincidence do not prove causation. In fact, the relation between economic prosperity and centralization is very different from and indeed almost the opposite of what the orthodoxy alleges.[2]

Political integration (centralization) and economic (market) integration are two completely different phenomena. Political integration involves the territorial expansion of a state's power of taxation and property regulation (expropriation).

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2. On the political economy of centralization and decentralization, see Jean Baechler, *The Origins of Capitalism* (New York: St. Martin's Press, 1976), esp. ch. 7; and Hans-Hermann Hoppe, "Migrazione, Centralismo e Secessione nell' Europa Contemporanea," in *Biblioteca Della Libertà,* no.118 (1992).

Economic integration is the extension of the interpersonal and interregional division of labor and market participation. In principle, in taxing and regulating private property owners and market income earners, all governments are counterproductive. They *reduce* market participation and the formation of economic wealth. Once the existence of a government has been assumed, however, there is no direct relation between territorial size and economic integration. Switzerland and Albania are both small countries, but Switzerland exhibits a high degree of economic integration, whereas Albania does not. Both the US and the former Soviet Union are large. Yet while there is much division of labor and market participation in the US, in the Soviet Union, where there was virtually no private capital ownership, there was hardly any economic integration. Centralization, then, can go hand in hand with either economic progress or retrogression. There are improvements whenever a less taxing and regulating government expands its territory at the expense of a more exploitative one. If the reverse occurs, centralization implies economic disintegration and retrogression.

Yet there is a very important indirect relation between size and economic integration. A central government ruling over a large territories — much less a single world government — cannot come into being *ab ovo.* Instead, all institutions with the power to tax and regulate private owners must start out small. Smallness, however, contributes to moderation. A small government has many competitors,[3] and if it taxes and regulates its own subjects more than its competitors, it is bound to suffer from the emigration of labor and capital and a corresponding loss of future tax revenue. Consider a single household, or a village, as an independent territory. Could a father do to his son, or a mayor to his village, what the government of the Soviet Union did to its subjects (i.e., deny them private capital ownership) or what governments all across Western Europe and the US do to their citizens (i.e., expropriate up to 50% of their productive output)? Obviously not. There

3. Political competition is a far more effective way of limiting a government's natural desire for expansion than internal constitutional limitations. Indeed, the attempts of some public choice theorists and of "constitutional economics" to design liberal model constitutions must strike one as hopelessly naive. For constitutional courts, and supreme court judges, are part and parcel of the government apparatus whose powers they are supposed to limit.Why in the world should they want to constrain the power of the very organization that provides them with jobs, money, and prestige? To assume so is not only theoretically inconsistent (i.e., incompatible with the assumption of self-interest), it is also without any historical foundation. Despite the explicit limitation of the power of the central government contained in the 10th amendment of the US constitution, for instance, it has been the interpretation by the US Supreme Court which has rendered the amendment essentially null and void. Similarly, despite the constitutional guarantee of private property by the (West) German constitution, for instance, the German supreme court, after German reunification in 1990, declared all communist expropriations prior to the founding of the East German state in 1949 "valid." Thus, more than 50% of former East Germany's land used for agriculture was appropriated by the (West) German state (rather than being returned to the original private owners, as required by a literal interpretation of the constitution).

would either be an immediate revolt and the government would be overthrown, or emigration to another nearby household or village would ensue.

Contrary to orthodoxy, then, it is precisely the fact that Europe possessed a highly decentralized power structure composed of countless independent political units which explains the origin of capitalism — the expansion of market participation and of economic growth — in the Western world. It is not by accident that capitalism first flourished under conditions of extreme political decentralization: in the northern Italian city states, in southern Germany, and in the secessionist Low Countries (Netherlands).

The competition among small states for taxable subjects brings them into conflict with each other. As a result of interstate conflicts, historically drawn out over the course of centuries, a few states succeed in expanding their territories, while others are eliminated or incorporated. Which states win in this process of eliminative competition depends on many factors, of course, but in the long run, the decisive factor is the relative amount of economic resources at a government's disposal. In taxing and regulating, governments do not contribute to the creation of economic wealth. Instead, they parasitically draw on existing wealth. However, they can influence the amount of existing wealth negatively. Other things being equal, the lower the tax and regulation burden imposed by a government on its domestic economy, the larger its population tends to grow (due to internal reasons as well as immigration factors), and the larger the amount of domestically produced wealth on which it can draw in its conflicts with neighboring competitors. For this reason, centralization is frequently progressive. States which tax and regulate their domestic economies little — liberal states — tend to defeat and expand their territories at the expense of non-liberal ones. This accounts for the outbreak of the "Industrial Revolution" in centralized England and France. It explains why, in the course of the 19th century, Western Europe came to dominate the rest of the world (rather than the other way around). Furthermore, it explains the rise of the US to the rank of superpower in the course of the 20th century.

However, the further the process of more liberal governments defeating less liberal ones proceeds (i.e., the larger the territories, the fewer and more distant the remaining competitors, and thus the more costly international migration), the lower a government's incentive to continue in its domestic liberalism will be. As one approaches the limit of a One World state, all possibilities of voting with one's feet against a government disappear. Wherever one goes, the same tax and regulation structure applies. Thus relieved of the problem of emigration, a fundamental rein on the expansion of governmental power is gone. This explains developments in the 20th century: with WWI, and even more so with WWII, the US attained hegemony over Western Europe and became heir to its vast colonial empires. A decisive step in the direction of global unification was taken with the establishment of a *pax Americana*. Indeed, throughout the entire period the US, Western Europe, and most of the rest of the world have suffered from a steady and

dramatic growth of government power, taxation, and regulatory expropriation.[4]

In light of social and economic theory and history, then, a case for secession can be made. Initially, secession is nothing more than a shifting of control over the nationalized wealth from a larger, central government to a smaller, regional one. Whether this will lead to more or less economic integration and prosperity depends largely on the new regional government's policies. However, the sole fact of secession has a positive impact on production, for one of the most important reasons for secession is typically the belief on the part of the secessionists that they and their territory are being exploited by others. The Slovenes felt they were being robbed systematically by the Serbs and the Serbian-dominated central Yugoslavian government; and the Baltic people resented the fact that they had to pay tribute to the Russians and the Russian-dominated government of the Soviet Union. By virtue of secession, hegemonic domestic relations are replaced by contractual, mutually beneficial foreign relations. Instead of forced integration, there is voluntary separation. Forced integration, as also illustrated by measures such as busing, rent controls, affirmative action, anti-discrimination laws and, as will be explained shortly, "free immigration," invariably creates tension, hatred, and conflict. In contrast, voluntary separation leads to harmony and peace. Under forced integration, any mistake can be blamed on a "foreign" group or culture and all success claimed as one's own; hence, there is little reason for any culture to learn from another. Under a regime of "separate but equal," one must face up to the reality not only of cultural diversity but in particular of visibly different ranks of cultural advancement. If a secessionist people wishes to improve or maintain its position *vis-à-vis* a competing one, nothing but discriminative learning will help. It must imitate, assimilate, and, if possible, improve upon the skills, traits, practices and rules characteristic of more advanced societies, and it must avoid those characteristic of less advanced societies. Rather than promoting a downward leveling of cultures as under forced integration, secession stimulates a cooperative process of cultural selection and advancement.

Moreover, while everything else depends on the new regional government's domestic policies and there is no direct relation between size and economic integration, there is an important indirect connection. Just as political centralization ultimately tends to promote economic disintegration, so secession tends to advance integration and economic development. First, secession always involves the breaking away of a smaller from a larger population and is thus a vote against the principle of democracy and majoritarian rule in favor of private, decentralized ownership. More importantly, secession always involves increased opportunities for interregional migration, and a secessionist government is immediately confronted with the specter of emigration. To avoid the loss of its most productive subjects, it comes under increased pressure to adopt comparatively liberal domestic policies by

4. On this theme, see also Paul Johnson, *Modern Times* (New York: Harper & Row, 1983); and Robert Nisbet, *The Present Age* (New York: Harper & Row, 1988).

allowing more private property and imposing a lower tax and regulation burden than its neighbors. Ultimately, with as many territories as separate households, villages or towns, the opportunities for economically motivated emigration is maximized, and government power over a domestic economy minimized.

Specifically, the smaller the country, the greater the pressure to opt for free trade rather than protectionism. All government interference with foreign trade forcibly limits the range of mutually beneficial interterritorial exchanges and thus leads to relative impoverishment, at home as well as abroad. But the smaller a territory and its internal markets, the more dramatic this effect will be. A country the size of the US, for instance, might attain comparatively high standards of living even if it renounced all foreign trade, provided it possessed an unrestricted internal capital and consumer goods market. In contrast, if predominantly Serbian cities or counties seceded from surrounding Croatia, and if they pursued the same protectionism, this would likely spell disaster. Consider a single household as the conceivably smallest secessionist unit. By engaging in unrestricted free trade, even the smallest territory can be fully integrated into the world market and partake of every advantage of the division of labor, and its owners may become the wealthiest people on earth. On the other hand, if the same household owners decided to forego all interterritorial trade, abject poverty or death would result. Accordingly, the smaller a territory and its internal markets, the more likely it is that it will opt for free trade.

Moreover, secession also promotes *monetary* integration. The process of centralization has also resulted in monetary disintegration; the destruction of the former international commodity (gold) money standard and its replacement with a dollar-dominated system of freely fluctuating government paper monies (i.e., a global, US-led government counterfeiting cartel). However, a system of freely fluctuating paper currencies — the Friedmanite-monetarist ideal — is strictly speaking no monetary system at all.[5] It is a system of partial *barter* — dysfunctional of the very purpose of money of facilitating rather than complicating exchange. This becomes obvious once it is recognized that, from the viewpoint of economic theory, there is no special significance attached to the way national borders are drawn. Yet, if one then imagines a proliferation of ever smaller national territories, ultimately to the point where each household forms its own country, Friedman's proposal is revealed for what it is — an outright absurdity. If every household were to issue its own paper currency, the world would be right back at barter. No one would accept anyone else's paper, economic calculation would be impossible, and trade would come to a virtual standstill. It is only due to centuries of political centralization and the fact that only a relatively small number of countries and national currencies remains, and hence that the disintegrative

5. See also Murray N. Rothbard, *The Case for a 100 Percent Gold Dollar* (Auburn, Al.: Ludwig von Mises Institute, 1991); *The Case Against the FED* (Auburn, Al.: Ludwig von Mises Institute, 1995); and Hans-Hermann Hoppe, "How is Fiat Money Possible? — or The Devolution of Money and Credit," in *Review of Austrian Economics,* Vol.7, no.2 (1994).

consequences and calculational difficulties are far less severe, that this could have been overlooked. From this insight it follows that secession, provided it proceeds far enough, will actually promote monetary integration. In a world of hundreds of thousands of independent political units, each country would have to abandon the current fiat money system, which has been responsible for the greatest, world-wide inflation in all of human history, and once again adopt an international commodity money system such as the gold standard.

Secessionism, and the growth of separatists and regionalist movements in Eastern and Western Europe, in North America as well as elsewhere, represent not an anachronism but potentially the most progressive historical forces. Secession increases ethnic, linguistic, religious and cultural diversity, while in the course of centuries of centralization hundreds of distinct cultures were stamped out. It will end the forced integration brought about as the result of centralization, and rather than stimulating social strife and cultural nivellation, it will promote the peaceful, cooperative competition of different, territorially separate cultures. In particular, it will eliminate the immigration problem increasingly plaguing Western Europe as well as the US. Presently, whenever the central government permits immigration, it allows foreigners to proceed — literally on government-owned roads — to any of its residents' doorsteps, regardless of whether or not these residents desire such proximity to foreigners. "Free immigration" is thus to a large extent forced integration. Secession solves this problem by letting smaller territories each have their own admission standards and determine independently with whom they will associate on their own territory and with whom they prefer to cooperate from a distance.[6]

Lastly, secession promotes economic integration and development. The process of centralization has resulted in the formation of an international, US-dominated government cartel of managed migration, trade, and fiat money, ever more invasive and burdensome governments, globalized welfare-warfare statism and economic stagnation or even declining standards of living. Secession, if it is only extensive enough, could change all this. A world consisting of tens of thousands of distinct countries, regions and cantons, and of hundreds of thousands of independent free cities such as the present-day "oddities" of Monaco, Andorra, San Marino, Liechtenstein, Hong Kong, and Singapore, with the resulting greatly increased opportunities for economically motivated migration, would be one of small liberal governments economically integrated through free trade and an international commodity money such as gold. It would be a world of unprecedented economic growth and unheard of prosperity.

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6. On immigration see also Murray N. Rothbard, "Nations by Consent: Decomposing the Nation State," in *Journal of Libertarian Studies,* Vol.11, no.1 (1994); and Hans-Hermann Hoppe, "Free Immigration or Forced Integration?" in *Chronicles* (June 1995).